



**Ezinqoleni Municipality  
Annual Financial Statements  
for the year ended 30 June 2016**

# Ezingolweni Municipality

Annual Financial Statements for the year ended 30 June 2016

## General Information

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<b>Legal form of entity</b>	Municipality (MFMA)
<b>Municipal demarcation code</b>	KZN 215
<b>Executive mayor</b>	Cllr M.A. Mpisi
<b>Speaker</b>	Cllr M.A. Mpisi
<b>Chief whip</b>	Cllr M.A. Mpisi
<b>Councillors</b>	Cllr M.P. Cele Cllr T.M. Cele Cllr S.A. Khawula Cllr S.E. Khawula Cllr H.P. Mbatha Cllr P.H. Mthiyane Cllr B.C. Mzobe Cllr S.A. Ngcece Cllr B.D. Nyawose Cllr B.O. Ngcobo
<b>Grading of local authority</b>	Grade 5
<b>Accounting Officer</b>	Mr M.N. Mabece
<b>Chief Finance Officer (CFO)</b>	Mr B. Cele
<b>Registered office</b>	Municipal Offices N2 Main Harding Road Opposite Izingolweni Taxi Rank Izingolweni 4260
<b>Business address</b>	N2 Main Harding Road Nkulu Ward 6 Opposite Izingolweni Taxi Rank Izingolweni 4260
<b>Postal address</b>	P. O. Box 108 Izingolweni 4260
<b>Bankers</b>	First National Bank Port Shepstone
<b>Auditors</b>	Auditor General

# **Ezingoleni Municipality**

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The reports and statements set out below comprise the annual financial statements presented to the council:

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The following supplementary information does not form part of the annual financial statements and is unaudited:

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# Ezingoleni Municipality

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## Accounting Officer's Responsibilities and Approval

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The Accounting Officer is required by the MFMA, to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is his responsibility to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with Standards of Generally Recognised Accounting Practice (GRAP). The external auditors are engaged to express an independent opinion on the annual financial statements.

The financial statements have been prepared in accordance with GRAP, including interpretations, guidelines and directives issued by the Accounting Practices Board (APB). These financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the Council sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Accounting Officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

I am responsible for the preparation of these annual financial statements in terms of Section 126(1) of the Municipal Finance Management Act (Act No 56 of 2003), and which I have signed on behalf of the municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 15 of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with this Act.

The financial statements set out on pages 4 to 49, which have been prepared on the going concern basis, were approved and signed on 31 August 2016:



Municipal Manager

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated
<b>Assets</b>			
<b>Non-Current Assets</b>			
Leasehold property, plant and equipment	2	107 514 811	85 377 362
Intangible assets	3	342 661	324 971
		<b>107 857 472</b>	<b>85 702 333</b>
<b>Current Assets</b>			
Receivables from non exchange transactions	5	3 627 833	2 715 911
Vat receivable	4	714 211	1 468 603
Cash and cash equivalents	7	33 100 862	40 974 123
Grants shown under current assets		2 481 651	-
Receivables from exchange transactions	6	171 071	172 982
		<b>40 095 628</b>	<b>45 331 619</b>
<b>Total Assets</b>		<b>147 953 100</b>	<b>131 033 952</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Retained income		139 090 888	124 506 654
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Employee benefit obligation	8	688 000	531 000
Post employment medical liability	9	1 957 000	1 586 000
		<b>2 645 000</b>	<b>2 117 000</b>
<b>Current Liabilities</b>			
Payables from exchange transactions	10	5 374 876	2 504 607
Unspent conditional grants	11	770 336	1 865 691
Current portion of employee benefit obligation	8	72 000	40 000
		<b>6 217 212</b>	<b>4 410 298</b>
<b>Total Liabilities</b>		<b>8 862 212</b>	<b>6 527 298</b>
<b>Total Equity and Liabilities</b>		<b>147 953 100</b>	<b>131 033 952</b>

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Rental of facilities and equipment		11 318	5 028
Other income from exchange transactions	13	1 304 669	484 648
Interest		2 936 595	2 583 861
<b>Revenue from non-exchange transactions</b>			
Property rates	12	2 263 077	2 157 245
Donations received		-	317 735
<b>Transfer revenue</b>			
Government grants and subsidies	11	64 044 715	53 380 478
<b>Revenue from transfers, exchange and non exchange transactions</b>		<b>70 560 374</b>	<b>58 928 995</b>
<b>Other income</b>			
Profit on disposal of fixed assets		-	63 494
Gain on fair valuing of assets		12 144	45 693
Actuarial gain		-	11 000
Insurance claim		-	9 761
<b>Total Other Income</b>		<b>12 144</b>	<b>129 948</b>
<b>Expenditure</b>			
Actuarial loss		473 000	286 000
Advertising		122 256	154 882
Audit fees	14	950 225	825 663
Bank charges		65 301	55 042
Cleaning		270 481	192 874
Councillors' remuneration	15	3 570 053	3 293 063
Depreciation, amortisation and impairments	2,3	10 076 337	10 438 741
Electricity and water		314 067	188 938
Employee costs	16	15 174 059	12 674 532
Insurance		387 710	317 617
Lease rentals on operating lease		48 562	39 394
Legal expenses		-	104 720
Loss on disposal of fixed assets		1 899	-
Other expenses	17	7 180 787	4 223 216
Postage		3 304	977
Printing and stationery		152 945	94 604
Protective and safety clothing		77 945	90 066
Refreshments and year end function		409 296	111 135
Rent of leasehold properties		1 092	10 374
Repairs and maintenance		1 628 102	635 021
Security		633 526	572 536
Seminars and workshops		1 465 857	1 209 212
Special programmes	19	8 320 757	5 862 430
Staff bursaries		102 191	88 267
Subscriptions		858 212	563 693
Sundry expenses	18	933 654	709 601
Telephone and fax		389 508	454 332
Training		103 255	29 000
Transport costs		630 442	522 785
Waste management		952 816	636 156
<b>Total expenditure</b>		<b>55 297 639</b>	<b>44 384 871</b>
<b>Surplus for the year</b>		<b>15 274 879</b>	<b>14 674 072</b>

# Ezingoleni Municipality

Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts Budget on Cash Basis

Description	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference See Note 28 Reconciliation of Actual amounts
<b>Statement of Financial Performance</b>						Note 28
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Investment revenue	1 800 000	300 000	2 100 000	2 936 595	836 595	
Other own revenue	671 000	905 500	1 576 500	1 329 246	(247 254)	
<b>Total revenue from exchange transactions</b>	<b>2 471 000</b>	<b>1 205 500</b>	<b>3 676 500</b>	<b>4 265 841</b>	<b>589 341</b>	
<b>Revenue from non exchange transactions</b>						
<b>Taxation</b>						
Property rates	2 702 513	(500 000)	2 202 513	2 263 077	60 564	
<b>Transfer revenue</b>						
Transfers recognised - operational	50 283 000	-	50 283 000	64 044 715	13 761 715	
Transfers recognised - capital	-	-	-	-	-	
Donations	-	-	-	-	-	
<b>Total revenue from non exchange transactions</b>	<b>52 985 513</b>	<b>(500 000)</b>	<b>52 485 513</b>	<b>66 307 792</b>	<b>60 564</b>	
Other income	-	-	-	-	-	
<b>Total Revenue</b>	<b>55 456 513</b>	<b>705 500</b>	<b>56 162 013</b>	<b>70 573 633</b>	<b>13 761 715</b>	
<b>Expenditure</b>						
Employee costs	14 734 057	1 496 841	16 230 898	15 174 059	(1 056 839)	
Remuneration of councillors	3 663 445	-	3 663 445	3 570 053	(93 392)	
Depreciation & asset impairment	10 395 000	500 000	10 895 000	10 076 337	(818 663)	
Finance charges	60 060	39 940	100 000	-	(100 000)	
Materials and bulk purchases	-	-	-	-	-	
Other expenditure	26 342 533	(59 937)	26 282 596	26 477 192	194 596	
<b>Total Expenditure</b>	<b>55 305 095</b>	<b>1 976 844</b>	<b>57 281 939</b>	<b>55 297 641</b>	<b>(1 984 298)</b>	
<b>Assets</b>						
Infrastructure assets	11 900 000	-	11 900 000	13 812 166	1 912 166	
Community assets	30 800 000	-	30 800 000	16 609 034	(14 190 966)	
Other assets	2 450 000	-	2 450 000	1 828 282	(621 718)	
<b>Total Assets</b>	<b>45 150 000</b>	<b>-</b>	<b>45 150 000</b>	<b>32 249 482</b>	<b>(12 900 518)</b>	
<b>Funding Source</b>						
National Grant	14 367 000	-	14 367 000	-	(14 367 000)	
Provincial Grant	-	-	-	-	-	
District Grant	-	-	-	-	-	
Internal Grant	30 783 000	-	30 783 000	-	(30 783 000)	
<b>Total Funding</b>	<b>45 150 000</b>	<b>-</b>	<b>45 150 000</b>	<b>-</b>	<b>(45 150 000)</b>	

See note 28 for a Reconciliation of actual amounts on a comparable basis and actual amounts in the financial statements

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Changes in Equity

Figures in Rand	Accumulated Surplus
<b>Balance at 1 July 2014 (as previously reported)</b>	<b>109 832 582</b>
Surplus for the year	14 674 072
<b>Surplus for the year</b>	<b>14 674 072</b>
<b>Balance at 01 July 2015</b>	<b>124 506 654</b>
Profit for the year	15 274 879
Surplus for the year	-
<b>Total comprehensive income for the year</b>	<b>15 274 879</b>
Prior year adjustments on fixed assets	(161 248)
Prior year adjustments on change in estimates for provision of staff bonuses	(529 397)
<b>Total changes</b>	<b>(690 645)</b>
<b>Balance at 30 June 2016</b>	<b>139 090 888</b>
Note(s)	



# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Cash Flows

Figures in Rand	Note(s)	2016	2015 Restated
<b>Cash flows from operating activities</b>			
Cash receipts from customers		66 713 774	55 023 302
Cash paid to suppliers and employees		45 711 635	4 448 346
Cash generated from operations	20	21 066 139	50 574 956
Interest income		2 936 595	2 583 861
Interest paid		-	2
<b>Net cash from operating activities</b>		<b>24 002 734</b>	<b>53 158 819</b>
<b>Cash flows from investing activities</b>			
Purchase of leasehold property, plant and equipment	2	(32 093 701)	(49 189 288)
Sale of leasehold property, plant and equipment	2	(3 014)	102 384
Purchase of intangible assets	3	(150 280)	(267 966)
<b>Net cash from investing activities</b>		<b>(32 246 995)</b>	<b>(49 354 872)</b>
<b>Cash flows from financing activities</b>			
Movement in post employment medical liability		371 000	546 000
<b>Total cash movement for the year</b>		<b>(7 873 261)</b>	<b>4 349 947</b>
Cash at the beginning of the year		40 974 123	36 624 176
<b>Total cash at end of the year</b>	7	<b>33 100 862</b>	<b>40 974 123</b>

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1. Presentation of annual financial statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention as the basis of measurement, unless specified otherwise. The figures in the statements have been rounded to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied, to all the years presented are set out below.

The following standards and interpretations issued, but not yet effective and have not been early adopted by the municipality:

- GRAP 20 Related Party Disclosures
- GRAP 32 Service Concession Arrangement: Grantor
- GRAP 108 Statutory Receivables
- GRAP 109 Accounting by Principals and Agents

None of these standards and interpretations are anticipated to have a material impact on the entity's financial statements.

#### 1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### *Trade receivables*

The economic entity assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

##### *Fair value estimation*

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the economic entity is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The economic entity uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments at end of the reporting period. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the economic entity for similar financial instruments.

##### *Impairment testing*

The economic entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred for each group of assets.

##### *Provisions*

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.1 Significant judgements and sources of estimation uncertainty (continued)

Provisions were raised and management determined an estimate based on the information available.

#### *Useful lives of property, plant and equipment*

The economic entity's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### *Effective interest rate*

The economic entity used the prime interest rate to discount future cash flows.

### 1.2 Going concern assumption

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 1.3 Offsetting

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

### 1.4 Leasehold property, plant and equipment

Leasehold property, plant and equipment are tangible items that:

- are held for use in the production or supply of goods or services, for rental to others or for administrative purposes; and
- are expected to be used during more than one period.

Costs include costs incurred initially to acquire or construct an item of leasehold property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of leasehold property, plant and equipment, the carrying amount of the replaced part is derecognised..

Leasehold property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Depreciation is provided using the straight-line method to write down the cost, less estimated residual value over the useful life of the leasehold property, plant and equipment as follows:

Item	Average useful life
Leasehold property	30 years
Infrastructure - Roads	10 years
Machinery and equipment	5 years
Motor vehicles	5 years
Furniture and office equipment	5 years
Computer equipment	5 years

The residual value, depreciation method and useful life of each asset are reviewed only where there is an indication that there has been a significant change from the previous estimate.

Each part of an item of leasehold property, plant and equipment with a cost that is significant in relation to the total cost of the item and have significantly different patterns of consumption of economical benefits is depreciated separately over its useful life.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss in the period.

### 1.5 Intangible assets

Intangible assets are initially recognised at cost.

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Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.5 Intangible assets (continued)

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

If the municipality is unable to make a reliable estimate of the useful life of an intangible asset, the life will be presumed to be 10 years.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting period date if there are indicators present that there is a change from the previous estimate.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	3 years

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties.

A financial asset is:

- cash
- a residual interest of another entity, or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions which are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives
- combined instruments that are designated at fair value
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition.

### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

#### Class

Trade receivables from exchange transactions  
Trade receivables from non-exchange transactions  
Bank, cash and cash equivalents  
Long-term receivables  
Current portion of long-term receivables

#### Category

Financial asset measured at fair value  
Financial asset measured at fair value  
Financial asset measured at amortised cost  
Financial asset measured at fair value  
Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

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Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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Class	Category
Trade payables from exchange transactions	Financial liability measured at amortised cost
Trade payables from non-exchange transactions	Financial liability measured at amortised cost
Retentions	Financial liability measured at amortised cost
Accrued leave pay	Financial liability measured at amortised cost
Accrual for staff bonus	Financial asset measured at fair value
Government grants and subsidies	Financial liability measured at amortised cost

### *Financial liability measured at fair value*

#### *Initial recognition*

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

#### *Initial measurement of financial assets and financial liabilities*

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

#### *Subsequent measurement of financial assets and financial liabilities*

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### *Fair value measurement considerations*

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### *Reclassification*

The entity does not reclassify a financial instrument while it is issued or held unless it is:

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- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

### *Gains and losses*

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

### *Impairment and uncollectibility of financial assets*

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

#### *Financial assets measured at amortised cost:*

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

#### *Financial assets measured at cost:*

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

### *Derecognition*

#### *Financial assets*

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset;
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.



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The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

### *Financial liabilities*

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

### *Presentation*

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

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A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### 1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. All other leases are operating leases.

#### Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

#### Operating leases – lessee

Operating lease payments are recognised as an expense a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

### 1.8 Impairment of assets

The municipality assesses at each year date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also:

- tests goodwill, with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (or group of assets) in prior years. A reversal of impairment is recognised immediately in profit or loss.

# **Ezingoleni Municipality**

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## **Accounting Policies**

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### **1.9 Employee benefits**

#### **Short-term employee benefits**

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide postemployment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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## Accounting Policies

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### 1.9 Employee benefits (continued)

#### Post employment benefits

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

##### *Post-employment benefits: Defined contribution plans*

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation

##### *Post-employment benefits: Defined benefit plans*

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

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### 1.9 Employee benefits (continued)

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement.

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

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### 1.9 Employee benefits (continued)

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

### 1.10 Provisions

Provisions are recognised when:

- the municipality has an obligation at the reporting date as a result of a past event;
- it is probable that the municipality will be required to transfer economic benefits in settlement; and
- the amount of the obligation can be estimated reliably.

Contingencies are disclosed in notes 22 and 23.

### 1.11 Government grants

Government grants are recognised when there is reasonable assurance that:

- the municipality will comply with the conditions attaching to them; and
- the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable.

### 1.12 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### 1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### *Measurement*

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### *Sale of goods*

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and

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- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

### *Rendering of services*

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

### **1.14 Revenue from non-exchange transactions**

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

### *Recognition*

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

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As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

### *Measurement*

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability.

Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

### **1.15 Value Added Tax**

The municipality accounts for value added tax on the payments basis in accordance with section 15(2)(a) of the Value Added Tax Act (Act No. 89 of 1991).

### **1.16 Investment income**

Investment income is recognised on a time-proportion basis using the effective interest method.

### **1.17 Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year's figures.

### **1.18 Commitments**

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements.

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

### **1.19 Events after reporting dates**

Events after the reporting date are classified as adjusting events are accounted for in the financial statements and events after the reporting dates that are classified as non-adjusting events are disclosed in the notes to the financial statements.

### **1.20 Budget information**

Economic Entity are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by economic entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 1 July 2015 to 30 June 2016.

The budget for the economic entity includes all the entities approved budgets under its control.



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The financial statements and the budget are not on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Comparative information is not required.

### 1.21 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

### 1.22 Irregular expenditure

Irregular expenditure as defined in chapter 1 of the Municipal Finance Management Act (Act No 56 of 2003) in relation to a municipality or municipal entity -

- Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, the requirement of this Act, and which has not been condoned in terms of section 170
- Expenditure incurred in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act (Act No.32 of 2000)
- Expenditure incurred in contravention of, or that is not in accordance with, a requirement of the Public Office Bearers Act (Act No. 20 of 1998)
- Expenditure incurred in contravention of, or that is not in accordance, a requirement of the Supply Chain Management Policy or any Municipal By-Laws giving effect to such policy, and which has not been condoned in terms of such policy or By-law, but excludes expenditure which falls within the definition of unauthorised expenditure.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.24 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.25 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the financial statements.

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016			2015		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Leasehold buildings	48 222 946	(16 404 407)	31 818 539	47 209 315	(13 860 170)	33 349 145
Work in progress - Leasehold buildings	22 787 406	-	22 787 406	6 201 471	-	6 201 471
Infrastructure - Roads	65 579 551	(39 557 710)	26 021 841	60 876 423	(33 700 199)	27 176 224
Work in progress - Infrastructure - Roads	20 713 234	-	20 713 234	12 609 546	-	12 609 546
Machinery and equipment	5 244 110	(2 262 108)	2 982 002	5 212 186	(1 723 619)	3 488 567
Motor vehicles	3 212 296	(1 375 243)	1 837 053	2 203 950	(936 700)	1 267 250
Furniture and office equipment	2 106 646	(1 605 386)	501 260	1 982 176	(1 394 997)	587 179
Computer equipment	1 935 927	(1 082 451)	853 476	1 510 232	(812 252)	697 980
<b>Total</b>	<b>169 802 116</b>	<b>(62 287 305)</b>	<b>107 514 811</b>	<b>137 805 299</b>	<b>(52 427 937)</b>	<b>85 377 362</b>

### Reconciliation of leasehold property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Leasehold buildings	33 349 145	-	-	1 013 631	(2 391 777)	(152 460)	31 818 539
Work in progress - Leasehold buildings	6 201 471	16 609 034	-	(23 099)	-	-	22 787 406
Infrastructure - Roads	27 176 224	-	-	4 717 946	(5 868 580)	(3 749)	26 021 841
Work in progress - Infrastructure - Roads	12 609 546	13 812 166	-	(5 708 478)	-	-	20 713 234
Machinery and equipment	3 488 567	31 963	(3 014)	-	(535 311)	(203)	2 982 002
Motor vehicles	1 267 250	1 088 882	-	-	(519 079)	-	1 837 053
Furniture and office equipment	587 179	124 472	-	-	(210 391)	-	501 260
Computer equipment	697 980	432 688	-	-	(277 192)	-	853 476
	<b>85 377 362</b>	<b>32 099 205</b>	<b>(3 014)</b>	<b>-</b>	<b>(9 802 330)</b>	<b>(156 412)</b>	<b>107 514 811</b>

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016		2015				
2. Leasehold property, plant and equipment (continued)							
Reconciliation of leasehold property, plant and equipment - 2015							
	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Leasehold buildings	36 830 484	-	-	-	(2 600 428)	(880 909)	33 349 145
Work in progress - Leasehold buildings	3 143 959	3 057 512	-	-	-	-	6 201 471
Infrastructure - Roads	30 011 213	27 596 914	(14 818)	3 268 296	(6 045 446)	(43 021)	27 176 224
Work in progress - Infrastructure - Roads	4 893 202	10 984 640	-	(3 268 296)	-	-	12 609 546
Machinery and equipment	548 341	4 663 845	(39)	-	(168 677)	(1 727)	3 488 567
Motor vehicles	665 064	688 268	(80 536)	-	(206 569)	-	1 267 250
Furniture and office equipment	746 892	1 235 284	2	-	(209 848)	(18 369)	587 179
Computer equipment	547 407	962 825	(6 993)	-	(187 370)	(1 861)	697 980
	77 386 562	49 189 288	(102 384)	-	(9 418 338)	(945 887)	85 377 362

See Annexure B for more information.

No asset or any portion of any assets was provided to any person or institution as security.

### 2015

Community halls to the value of R11.9 million have been included in the buildings disclosure above, the lease agreement for the use of the land on which the buildings are housed is pending final approval from the Ingonyama Trust Board.

## 3. Intangible assets

	2016			2015		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	1 005 437	(662 776)	342 661	855 157	(530 186)	324 971

### Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	324 971	150 280	(132 590)	342 661

### Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	587 191	267 966	(74 515)	324 971

See Annexure B for more information.

### 2015

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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### 3. Intangible assets (continued)

During the period under review the remaining useful lives of Intangible assets were reviewed and it was found that these assets would fully depreciate within the next 11 to 23 months after year end. It was determined that these assets will still be utilized for at least the next 24 months, as a result the remaining useful lives were adjusted with between 1 and 13 months. This revision has resulted in a reduction in the current year amortization of R30 411 and will reduce the amortization for the following two financial years with R60 823.

### 4. Vat receivable

Vat	714 211	1 468 603
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### 5. Receivables from non exchange transactions

Rates	4 404 925	3 408 050
Less: Provision for bad debts	(777 092)	(692 139)
	<b>3 627 833</b>	<b>2 715 911</b>

#### Ageing

Current (0 – 30 days)	187 096	169 490
31 - 60 days	183 967	167 905
61 - 90 days	134 316	159 187
91 - 120 days	127 001	119 041
Greater than 120 days	3 772 545	2 792 427
	<b>4 404 925</b>	<b>3 408 050</b>

### 6. Receivables from exchange transactions

Sundry debtors	111 882	114 750
Accrued income	96 520	96 520
	208 402	211 270
Provision for bad debts	(37 331)	(38 288)
	<b>171 071</b>	<b>172 982</b>

### 7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1 000	1 000
Bank balances	6 838 615	15 249 782
Short-term deposits	26 261 247	25 723 341
	<b>33 100 862</b>	<b>40 974 123</b>

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>7. Cash and cash equivalents (continued)</b>		
<b>Primary Account</b>		
<b>First National Bank Account - Port Shepstone Branch</b>		
<b>Account Number 62024943153 : Current account</b>		
Bank statement balance at the beginning of the year	15 249 782	29 109 530
Bank statement balance at the end of the year	6 838 615	15 249 782
<b>Cashbook balance at the beginning of the year</b>	<b>15 249 782</b>	<b>29 109 530</b>
<b>Cashbook balance at the end of the year</b>	<b>6 838 615</b>	<b>15 249 782</b>
<b>Call Investment Deposits</b>		
Conditional Grant	24 544 752	22 333 028
Lottery Grant	125 829	10 000
Bank - Nedbank 1296000028	648 869	989 973
Bank - Absa 9286080526	426 473	803 705
Bank - Absa 9286080055	-	583 565
Bank - FNB 62536540059	515 324	1 003 070
	<b>26 261 247</b>	<b>25 723 341</b>
<b>Conditional Grant</b>		
<b>First National Bank Account - Port Shepstone Branch</b>		
<b>Account Number 62200828533 : Call Account</b>		
Bank statement balance at the beginning of the year	22 333 028	2 741 643
Bank statement balance at the end of the year	24 544 752	22 333 023
<b>Cashbook balance at the beginning of the year</b>	<b>22 333 028</b>	<b>1 009 243</b>
<b>Cashbook balance at the end of the year</b>	<b>24 544 752</b>	<b>22 333 028</b>
<b>Lottery Grant</b>		
<b>First National Bank Account - Port Shepstone Branch</b>		
<b>Account Number 62200828955 : Call Account</b>		
Bank statement balance at the beginning of the year	10 000	1 086 746
Bank statement balance at the end of the year	125 829	10 000
<b>Cashbook balance at the beginning of the year</b>	<b>10 000</b>	<b>1 086 746</b>
<b>Cashbook balance at the end of the year</b>	<b>125 829</b>	<b>10 000</b>
<b>Grant</b>		
<b>Nedbank Account - Port Shepstone Branch</b>		
<b>Account Number 1296000028</b>		
Bank statement balance at the beginning of the year	989 973	531 550
Bank statement balance at the end of the year	648 869	989 973
<b>Cashbook balance at the beginning of the year</b>	<b>989 973</b>	<b>531 550</b>
<b>Cashbook balance at the end of the year</b>	<b>648 869</b>	<b>989 973</b>
<b>Grant</b>		
<b>Absa Bank Account - Port Shepstone Branch</b>		
<b>Account Number 9286080526</b>		
Bank statement balance at the beginning of the year	803 705	1 009 243
Bank statement balance at the end of the year	426 473	803 705
<b>Cashbook balance at the beginning of the year</b>	<b>803 545</b>	<b>1 009 243</b>
<b>Cashbook balance at the end of the year</b>	<b>426 473</b>	<b>803 705</b>
<b>Grant</b>		
<b>Absa Bank Account - Port Shepstone Branch</b>		
<b>Account Number 9286080055</b>		
Bank statement balance at the beginning of the year	583 565	2 144 464

## Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

### Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>7. Cash and cash equivalents (continued)</b>		
Bank statement balance at the end of the year	-	583 565
Cashbook balance at the beginning of the year	583 565	2 144 464
Cashbook balance at the end of the year	-	583 565
<b>Conditional Grant</b>		
<b>First National Bank Account - Port Shepstone Branch</b>		
<b>Account Number 62536540059 : Call Account</b>		
Bank statement balance at the beginning of the year	1 003 070	-
Bank statement balance at the end of the year	515 324	1 003 070
Cashbook balance at the beginning of the year	1 003 070	-
Cashbook balance at the end of the year	515 324	1 003 070

# Ezinqoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>8. Employee benefit obligation</b>		
<b>Long service awards</b>		
Non-current liabilities	688 000	531 000
Current liabilities	72 000	40 000
	<b>760 000</b>	<b>571 000</b>

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The said award comprises of a certain number of additional vacation leave days. The provision represents an estimation of the awards to which employees in the service of the Municipality at 30 June 2016 may become entitled to in future, based on an actuarial valuation performed at that date.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2016 by One Pangaea Financial. The present value of the defined benefit obligation, and the related current service cost were measured using the Projected Unit Credit Method. No other long service benefits are provided by the Municipality.

The future cost for ensuing year is estimated to be R80 000 and the interest cost for the next year is estimated to be R47 000 (2014: R70 000 and R31 000 respectively).

**The principal actuarial assumptions used were as follows:**

Discount rate per annum	9.10 %	8.51 %
Inflation rate	6.72 %	6.25 %
Salary increase rate	7.72 %	7.25 %
Normal retirement age	63	63
Proportion continuing membership at retirement	95 %	95 %
Proportion of retiring members who are married	95 %	95 %
Mortality during employment	SA 85-90 light	SA 85-90 light
Percentage of in-service members withdrawing before retirement:	SA 85-90 light	SA 85-90 light
Age 20 - 24	16.5 %	12.0 %
Age 25 - 29	6.6 %	6.6 %
Age 30 - 34	5.1 %	5.1 %
Age 35 - 39	3.6 %	3.6 %
Age 40 - 44	2.6 %	2.6 %
Age 45 - 49	1.8 %	1.8 %
Age 50 - 54	1.1 %	1.1 %
Age 55 - 59	0.0 %	0.0 %
Age 60 -	0.0 %	0.0 %
	<b>314</b>	<b>308</b>

**Movement in the defined benefit obligation is as follows:**

Balance at beginning of the year	571 000	457 000
Current service cost	80 000	72 000
Interest cost	47 000	39 000
Actuarial (Gain) / Loss	102 000	14 000
Benefits payments by Municipality	(40 000)	(11 000)
	<b>760 000</b>	<b>571 000</b>

**The amounts recognised in the Statement of Financial Performance were as follows:**

Current service cost	80 000	72 000
Interest cost	47 000	39 000
Actuarial (Gain) / Loss	102 000	14 000
	<b>229 000</b>	<b>125 000</b>

**Disclosure in terms of par. 120A(p) of IAS 19**

Defined benefit obligation	688 000	531 000
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# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015	
Experience adjustments on plan liabilities	-	16 000	
	688 000	547 000	
Disclosure in terms of par. 120A(q) of IAS 19			
Expected benefits to be paid during the next financial year	72 000	40 000	
Salary inflation sensitivity			
	1% decrease	Base (7.50%)	1% increase
Defined benefit obligation	693 000	760 000	836 000
Service cost	150 000	166 000	186 000
	843 000	926 000	1 022 000

### Post retirement pension plan

The municipality's personnel are members of one of the Natal Joint Municipal Pension retirement funds, namely the Superannuation, Retirement and Provident Funds. As the aforementioned funds are multi-employer funds, the allocation of any surplus/deficit to individual municipalities cannot be determined. Furthermore disclosure of further details such as actuarial assumptions, cannot be attributed to any specific municipality and is of no relevance to users of the municipality's financial statements.

An independent valuer carries out a statutory valuation of the NJMPF on a triennial basis and an interim valuation on an annual basis. The findings are extracts from the interim actuarial valuation at 31 March 2013 released 13 November 2013.

### Superannuation Fund

The last valuation carried out on the Superannuation Fund as at 31 March 2013 reflected:

- The memorandum account in respect of pensioners was fully funded.
- The results show that the contributions from members and the local authorities at the valuation date are 83% less than the required contribution rate for future service.
- The valuation reveals that the total fund is 97.9 funded as the valuation date at the overall level.

### Retirement Fund

The interim valuation carried out on the Retirement Fund as at 31 March 2013 reflected:

- The fund is 93.1% funded as at the valuation date at the overall level
- The latest statutory valuation of the Retirement Fund as at 31 March 2013 revealed that the fund was not in a sound financial position but with the surcharge being paid is expected to restore the Fund to a sound financial condition within the period permitted by the FSB.

### Provident Fund

The latest statutory valuation of the Provident Fund (defined contribution) as at 31 March 2013 revealed that the fund was in a sound financial position.

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>9. Post Employment Medical Liability</b>		
<b>Post retirement medical subsidy employee benefits</b>		
Non-current liabilities	1 957 000	1 586 000
<b>The principal actuarial assumptions used were as follows:</b>		
Discount rate per annum (D)	11.20 %	10.27 %
Consumer price inflation (C)	8.64 %	7.45 %
Health care cost inflation (H)	10.14 %	8.95 %
Salary inflation (S)	6.90 %	6.90 %
Net discount rate $((1+D)/(1+H)-1)$	0.96 %	1.21 %
Normal retirement age	63	63
Fully accrued age	63	63
Early retirement age	55	55
Employment age used for past service period	Actual service entry ages	Actual service entry ages
Age difference between spouses:		
Active employees	3 years	3 years
Pensioners	Actual ages used	Actual ages used
Proportion married:		
Active employees	Assumed proportion married	Assumed proportion married
Pensioners	Actual marital status used	Actual marital status used
Mortality:		
Active employees	SA85-90 (Normal)	SA85-90 (Normal)
Pensioners	PA (90)-2	PA (90)-2

# Ezinqoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

2016

2015

The following proportion married assumption in the previous and current valuation periods:

Age	Males	Females
20	5 %	5 %
25	25 %	25 %
30	55 %	55 %
35	78 %	78 %
40	84 %	84 %
45	85 %	85 %
50	86 %	86 %
55	88 %	88 %
60+	92 %	92 %
	598	598

Movement in the defined benefit obligation is as follows:

Balance at beginning of the year	1 586 000	1 040 000
Current service cost	209 000	167 000
Interest cost	135 000	107 000
Actuarial (Gain) / Loss	27 000	272 000
	1 957 000	1 586 000

The amounts recognised in the Statement of Financial Performance were as follows:

Current service cost	209 000	167 000
Interest cost	135 000	107 000
Actuarial (Gain) / Loss	27 000	272 000
	371 000	546 000

Disclosure in terms of Paragraph 120A(P)&(Q) of IAS19 and GRAP 25

Par. 120A(p) of IAS 19 requires the disclosure of the following amounts for the current annual period and previous four annual periods:

- The present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and
- The experience adjustments arising on the plan liabilities and plan assets.

Par. 120A(p)	30 June 2015	30 June 2016	30 June 2017
Defined benefit obligation	1 586 000	1 930 000	2 417 000
Experience adjustments on plan liabilities	88 000	81 000	-
	1 674 000	2 011 000	2 417 000

Par. 120A(q) of IAS 19 requires the disclosure of the employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid during the annual period beginning after the reporting period.

The figure in the table below should be based on the pensioner contributions as at 30 June 2016, as provided by the employer, for the next financial year, increased with expected healthcare cost inflation from 1 January 2015. Since Ezinqoleni Municipality is yet to subsidise pensioners, the benefits/contributions expected over the following year are RNil.

Par. 120A(q)	30 June 2016
Employer contributions to be paid during the next financial year	-

Sensitivity Analysis

Health care cost inflation

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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The valuation basis assumes that the health care cost inflation rate (which manifests itself as the annual increase to the total contribution subsidised by the employer) will be 0.71% less than the corresponding discount rate, in the long term. The effect of a one percent increase and decrease in the health care cost inflation rate is as follows:

Health care cost inflation	1% decrease	Valuation basis	1% increase
Employer's accrued liability	1 536 000	1 957 000	2 523 000
Employer's service cost	183 000	241 000	322 000
Employer's interest cost	172 000	219 000	283 000
	<b>1 891 000</b>	<b>2 417 000</b>	<b>3 128 000</b>

The table below shows the impact of a change in the mortality assumption from PA(90) with a two year adjustment to PA(90) with a three year adjustment.

Mortality	Valuation basis PA (90) -2	PA (90) -3*
Employer's accrued liability	1 957 000	2 024 000
Employer's service cost	241 000	249 000
Employer's interest cost	219 000	227 000
	<b>2 417 000</b>	<b>2 500 000</b>

\*PA(90)-3 (PA(90) with a three-year age adjustment) means that, to each beneficiary we assigned a mortality rate of an individual three years younger than that beneficiary, ie lighter mortality implying that the individual lives longer than expected in the valuation basis.

Therefore, the above change in the mortality assumption would result in a 3.5% increase in the accrued liability.

### 10. Payables from exchange transactions

Trade payables	488 722	127 619
Retentions	3 542 983	1 515 808
Accrued leave pay	803 533	389 642
Accrual for staff bonus	539 638	471 538
	<b>5 374 876</b>	<b>2 504 607</b>

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>11. Government grants and subsidies</b>		
Equitable Share	43 543 000	34 499 000
Municipal Systems Improvement Grant (MSIG)	946 425	931 669
Municipal Infrastructure Grant	13 521 915	13 494 515
Finance Management Grant	1 397 308	1 800 455
Provincialisation of Libraries	625 816	562 454
Library Grant - Cyber Cadat	157 540	118 857
Small Town Rehabilitation Grant	-	9 106
LED Strategy Grant	-	72 700
Municipal Demarcation Grant	1 092 000	-
National Lottery Grant	-	688 937
Maintenance Grant/Technical & Community Services	110 059	127 215
Expanded Public Works Programme	1 431 601	1 047 581
Disaster Management Grant	219 051	27 989
Municipal Excellence Award	1 000 000	-
	<b>64 044 715</b>	<b>53 380 478</b>
<b>Equitable Share</b>		
Balance unspent at beginning of year	-	-
Equitable Share - BTO//Budget & Treasury Office	43 543 000	34 499 000
Conditions met – transferred to revenue	(43 543 000)	(34 499 000)
	-	-

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>Municipal Systems Improvement Grant (MSIG)</b>		
Balance unspent at beginning of year	2 338	47 006
Current year receipts	930 000	934 000
Conditions met – transferred to revenue	(946 425)	(931 668)
Funds returned	-	(47 000)
Grants shown in current asset	14 087	-
<b>Conditions still to be met - transferred to liabilities</b>	<b>-</b>	<b>2 338</b>

This grant is used for the improvement of systems. No funds were withheld.

<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	142 800	242 315
Current year receipts	12 007 000	13 987 000
Funds returned	-	(581 786)
Conditions met – transferred to revenue	(13 521 915)	(13 504 729)
Grants shown in current asset	1 372 115	-
<b>Conditions still to be met - transferred to liabilities</b>	<b>-</b>	<b>142 800</b>

This grant was used for infrastructure programmes. No funds were withheld.

<b>Financial Management Grant</b>		
Balance unspent at beginning of year	354	22 810
Current year receipts	1 800 000	1 800 000
Funds returned	-	(22 000)
Conditions met – transferred to revenue	(1 397 308)	(1 800 456)
<b>Conditions still to be met - transferred to liabilities</b>	<b>403 046</b>	<b>354</b>

This grant was used for financial management including improving the finance management system, purchasing computers for finance staff and capacity building for finance, for example the employment of interns. No funds were withheld.

<b>Provincialisation of Libraries Grant</b>		
Balance unspent at beginning of year	78 498	105 952
Current year receipts	553 000	535 000
Conditions met – transferred to revenue	(624 949)	(562 454)
<b>Conditions still to be met - transferred to liabilities</b>	<b>6 549</b>	<b>78 498</b>

<b>Library Grant - Cyber Cadet</b>		
Balance unspent at beginning of year	197 584	190 441
Current year receipts	170 000	126 000
Conditions met – transferred to revenue	(157 540)	(118 857)
<b>Conditions still to be met - transferred to liabilities</b>	<b>210 044</b>	<b>197 584</b>

This grant was used for the operational staff for the library such as the Cyber Cadet.

<b>Small Town Rehabilitation Grant</b>		
Balance unspent at beginning of year	-	9 106
Conditions met – transferred to revenue	-	(9 106)
<b>Conditions still to be met - transferred to liabilities</b>	<b>-</b>	<b>-</b>

This grant was used to rehabilitate the town including the construction of a trade centre, a community park, landscaping and the installation of street lights. No funds were withheld.

<b>LED Strategy Grant</b>		
Balance unspent at beginning of year	34 022	104 722
Current year receipts	42 501	2 000

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
Conditions met – transferred to revenue	-	(72 700)
<b>Conditions still to be met - transferred to liabilities</b>	<b>76 523</b>	<b>34 022</b>

This grant was used to review Local Economic Development Strategy and align it with the district strategy. No funds were withheld.

### Integrated National Electrification Programme

Balance unspent at beginning of year	-	-
Current year receipts	-	-
Conditions met – transferred to revenue	-	-
<b>Conditions still to be met - transferred to liabilities</b>	<b>-</b>	<b>-</b>

This grant was used to connect electricity to households with no connections. No funds were withheld.

### National Lottery Grant

Balance unspent at beginning of year	-	688 937
Conditions met – transferred to revenue	-	(688 937)
<b>Conditions still to be met - transferred to liabilities</b>	<b>-</b>	<b>-</b>

### Infrastructure Grant

Balance unspent at beginning of year	-	-
Current year receipts	-	-
Conditions met – transferred to revenue	-	-
<b>Conditions still to be met - transferred to liabilities</b>	<b>-</b>	<b>-</b>

This grant was used for the construction of sportsfield. No funds were withheld.

### Integrated Development Plan Grant

Balance unspent at beginning of year	13	13
Current year receipts	-	-
Conditions met – transferred to revenue	-	-
<b>Conditions still to be met - transferred to liabilities</b>	<b>13</b>	<b>13</b>

This grant was used to community participation in Integrated Development Plan. No funds were withheld.

### Maintenance Grant

Balance unspent at beginning of year	106 610	233 825
Funds returned	-	(10 213)
Conditions met – transferred to revenue	(110 059)	(117 002)
Grants shown in current asset	3 449	-
<b>Conditions still to be met - transferred to liabilities</b>	<b>-</b>	<b>106 610</b>

This grant from the Department of Sport and Recreation was used for maintenance. No funds were withheld.

### Expanded Public Works Programme

Balance unspent at beginning of year	5 639	169 220
Current year receipts	1 430 000	1 053 000
Funds returned	-	(169 000)
Conditions met – transferred to revenue	(1 431 600)	(1 047 581)
<b>Conditions still to be met - transferred to liabilities</b>	<b>4 039</b>	<b>5 639</b>

This grant is from the Department of Public Works is used to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in the following identified focus areas, in compliance with the EPWP guidelines: road maintenance and the maintenance of buildings; low traffic volume roads and rural roads; basic services infrastructure. No funds were withheld.

# Ezinqoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>Disaster Management Grant</b>		
Balance unspent at beginning of year	297 832	-
Current year receipts	-	325 821
Conditions met – transferred to revenue	(219 051)	(27 989)
<b>Conditions still to be met - transferred to liabilities</b>	<b>78 781</b>	<b>297 832</b>

This grant is for maintenance of a disaster truck and payment of personnel from Ugu District Municipality. No funds were withheld.

<b>Municipal Excellence Award</b>		
Balance unspent at beginning of year	1 000 000	-
Current year receipts	(1 000 000)	1 000 000
<b>Conditions still to be met - transferred to liabilities</b>	<b>-</b>	<b>1 000 000</b>

This grant is for the best small performing municipality from COGTA. No funds were withheld.

<b>Demarcation Grant</b>		
Balance unspent at beginning of year	-	-
Current year receipts	-	-
Conditions met – transferred to revenue	(1 092 000)	-
Grants shown in current asset	1 092 000	-
<b>Conditions still to be met - transferred to liabilities</b>	<b>-</b>	<b>-</b>

This grant is for the best small performing municipality from COGTA. No funds were withheld.

<b>Summary of unspent conditional grants and receipts</b>		
Municipal Systems Improvement Grant (MSIG)	-	2 338
Municipal Infrastructure Grant	-	142 800
Financial Management Grant	403 046	354
Provincialisation of Libraries Grant	6 549	78 498
Library Grant - Cyber Cadet	210 044	197 584
LED Strategy Grant	76 523	34 022
Integrated Development Plan Grant	13	13
Maintenance Grant	-	106 610
Expanded Public Works Programme	4 039	5 639
Disaster Management Grant	70 122	297 832
Municipal Excellence Award	-	1 000 000
	<b>770 336</b>	<b>1 865 690</b>



# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>12. Property rates</b>		
<b>Actual</b>		
Agriculture properties used for agricultural purposes	314 494	291 190
Agricultural properties used for other business and commercial purposes	922 445	895 731
Agricultural smallholding	61 096	50 529
Communal land	53 337	50 349
Communal property association	14 058	13 271
Public service infrastructure	19 496	18 248
Residential smallholding	284 959	300 346
Rural business and commercial	513 300	478 791
State owned	489 568	461 721
Tourism and hospitality - rural	339 125	319 847
	3 011 878	2 880 023
Property Rate Exemptions & Rebates	(748 802)	(722 778)
	<b>2 263 076</b>	<b>2 157 245</b>

<b>Property Valuations</b>		
Agriculture properties used for agricultural purposes	322 900 000	322 900 000
Agricultural properties used for other business and commercial purposes	49 300 000	49 300 000
Agricultural smallholding	22 220 000	22 220 000
Communal land	55 329 000	55 329 000
Communal property association	14 583 000	14 583 000
Municipal property	11 000	11 000
Place of worship	3 110 000	3 110 000
Public service infrastructure	8 025 000	8 025 000
Residential smallholding	16 498 000	16 498 000
Rural business and commercial	26 300 000	26 300 000
State owned	101 477 000	101 477 000
Tourism and hospitality - rural	17 574 000	17 574 000
	<b>637 327 000</b>	<b>637 327 000</b>

**Non rateable**  
Non rateable

<b>Last general valuation</b>		
The last general valuation came into effect on:	01/07/2012	01/07/2011

Property rates levied in terms of the Local Government: Municipal Property Rates Act No. 6 of 2004 with effect from 01/07/2008.

Interim valuations are processed on an annual basis to take into account changes in individual values due to consolidations and subdivisions

### Assessment rates: Randages on market valuation as follows:

Residential	0.019297	0.018205
Residential smallholding	0.019297	0.018205
Industrial / Commercial	0.019297	0.018205
Mining	0.019297	0.018205
Agricultural - Bona fide use	0.000964	0.000910
Agricultural - Commercial only	0.019297	0.018205
Agricultural - Mixed use	0.002410	0.002274
Special purpose	0.004823	0.004550
Institutional	0.004823	0.004550
Public Service Infrastructure	0.002410	0.002274
Communal land	0.000964	0.000910
Rural business and commercial	0.019297	0.018205
Tourism and hospitality - rural	0.019297	0.018205

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
Vacant land	0.000964	0.000910
	-	-
Interest is levied on outstanding rates per annum at:	18 %	18 %

### 13. Other income from exchange transactions

Included in other income from exchange transactions is the following:

Sale of tender documents		182 895
SCP Refund Deptment of Transport	153 139	279 800
LG SETA	38 019	21 037
Sundry income	1 113 511	916
	<b>1 304 669</b>	<b>484 648</b>

### 14. Audit fees

Fees	950 225	825 663
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During the prior year, the auditor's remuneration was paid from the Financial Management Grant and thus accounted for in Financial Grant expenditure.

### 15. Remuneration of councillors

Mayor	698 133	722 157
Councillors	2 871 920	2 570 906
	<b>3 570 053</b>	<b>3 293 063</b>

2016	Mayor	Councillors	Total
Basic salary	478 788	1 877 468	2 356 256
Car allowances	170 503	570 184	740 687
Backpay	23 740	106 902	130 642
Other benefits	25 102	317 366	342 468
	<b>698 133</b>	<b>2 871 920</b>	<b>3 570 053</b>

2015	Mayor	Councillors	Total
Basic salary	433 288	1 516 654	1 949 942
Car allowances	161 051	537 885	698 936
Backpay	28 560	95 391	123 951
Other benefits	24 268	265 689	289 957
Company contributions	74 990	155 287	230 277
	<b>722 157</b>	<b>2 570 906</b>	<b>3 293 063</b>

#### *In-kind Benefits*

The Mayor is full-time and has an office and Personal Assistant at the cost of the council.

The remuneration of the political office-bearers and councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>16. Employee costs</b>		
Employee related costs - salaries and wages	8 952 820	8 798 532
Contributions to UIF, medical and pension benefits	2 712 820	1 982 000
Travel, motor car, accommodation, subsistence and other allowances	1 799 182	1 139 322
Housing benefits and allowances	330 279	333 464
Overtime	100 773	-
Leave	422 344	48 089
Bonuses	539 638	579 425
Backpay	196 164	107 978
Contributions to long service award	120 039	239 000
Post employment medical liability	-	146 000
	<b>15 174 059</b>	<b>13 373 810</b>

Included in the above are the following s57 Employees' remuneration:

<b>Remuneration of the Municipal Manager</b>		
Annual remuneration	662 000	601 647
Car allowance	129 600	129 600
Housing allowance	103 200	103 200
Bonus	223 621	73 339
Backpay	28 787	23 175
Other benefits	51 597	43 653
	<b>1 198 805</b>	<b>974 614</b>

<b>Remuneration of the Chief Finance Officer</b>		
Annual remuneration	552 237	505 126
Car allowance	108 000	108 000
Housing allowance	84 000	84 000
Bonus	163 290	73 269
Backpay	20 681	19 979
Other benefits	36 656	22 081
	<b>964 864</b>	<b>812 455</b>

<b>Director: Technical Services</b>		
Annual remuneration	256 093	164 036
Car allowance	84 000	30 000
Housing allowance	-	38 000
Bonus	20 164	52 734
Backpay	4 235	15 983
Leave pay	-	80 154
Other benefits	14 271	3 600
Acting allowance	-	25 727
	<b>378 763</b>	<b>410 234</b>

<b>Director: Corporate Services</b>		
Annual remuneration	503 678	453 977
Car allowance	180 000	180 000
Housing allowance	90 000	90 000
Bonus	126 457	59 804
Backpay	20 681	19 979
Other benefits	25 387	25 172
	<b>946 203</b>	<b>828 932</b>

## 17. Other expenses

# Ezinqoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
Promotions	117 053	137 108
Arts and culture	105 100	91 719
Sports and recreation	750 542	475 509
Free Basic Services - Electricity	171 298	193 702
Free Basic Services - Paraffin	446 921	430 038
Local Economic Development	1 131 241	1 064 048
Tourism	106 000	100 000
Public Participation	662 229	531 371
Gravelling of Access Road	3 485 612	876 825
Disaster Management	204 792	85 244
Team Building	-	237 652
	<b>7 180 787</b>	<b>4 223 216</b>

### 18. Sundry expenses

Software licences	108 446	30 813
Medical examination	2 230	2 080
Staff incentive	-	181 395
Sportsfields	-	42 000
Vat recovery fees	663 948	179 388
Awareness campaign	105 544	272 026
Other expenditure	-	(100)
Farm Workers	31 160	2 000
Other Expenditure/Consumable Stores/Budget & Treas	22 326	-
	<b>933 654</b>	<b>709 601</b>

### 19. Special programmes

Local Government Finance Management	1 657 476	1 455 197
Municipal Systems Improvement Grant (MSIG)	868 589	870 333
LED Strategy Grant	-	72 700
Cyber Grant	157 540	118 857
Provincialisation of Library	606 884	540 042
Maintenance Grant	109 659	128 215
Disaster Management Grant	219 051	27 989
Municipal Demarcation Transition	1 013 158	-
Extended Public Works Programme	1 435 675	1 045 381
Youth Development	278 242	249 480
Special Programmes (Gender)	85 261	71 127
Special Programmes (Disability)	78 880	68 744
Right of the Child	142 732	61 030
HIV & AIDS	107 001	61 550
Grant In Aid	517 010	574 692
Caucus	93 020	65 872
Women Empowerment	140 113	70 341
Ward Committee Stipend	320 100	315 850
Ugu Wide Partnership Project	345 063	9 750
Senior Citizen	145 304	55 280
	<b>8 320 757</b>	<b>5 862 430</b>

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>20. Cash generated from operations</b>		
Profit before taxation	15 274 879	14 674 072
<b>Adjustments for:</b>		
Depreciation and amortisation	10 076 337	10 438 741
Loss (profit) on sale of assets	1 899	(22 906)
Interest received	(2 936 595)	(2 583 861)
Movements in retirement benefit assets and liabilities	157 000	114 000
Movements in unspent conditional grants and receipts	(1 095 355)	51 344
<b>Changes in working capital:</b>		
Vat receivable	754 392	(1 123 174)
Construction contracts and receivables	(911 922)	-
Receivables from exchange transactions	-	(1 318 009)
Receivables from exchange transactions	-	(3 823)
Payables from exchange transactions	2 870 269	(368 310)
	<b>24 190 904</b>	<b>19 858 074</b>

### 21. Capital commitments

Commitments in respect of capital expenditure:

Approved and contracted for Infrastructure	8 426 920	1 461 792
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### 22. Contingent assets

No contingent assets were identified for the year ended 30 June 2016 nor for the year ended 30 June 2015.

### 23. Contingent liabilities

During the year the municipality became aware that a municipal entity whom the municipality sponsors in respect of grants for tourism may be liable for Vat on those grants. The amount calculated is R42 454. However, the entire amount will be claimed as Input tax in the Vat claim should the liability materialise. Accordingly, there will be no effect on the surplus of the municipality.

### 24. In-kind donations and assistance

The municipality did not receive any in-kind donations and assistance during the year under review.

### 25. Related parties

There are no related party transactions.

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>26. Additional disclosure in terms of the Municipal Finance Management Act</b>		
<b>PAYE and UIF</b>		
Opening balance	-	-
Current year payroll deductions and municipality's contributions	2 877 335	2 586 814
Amount paid - current year	(2 877 335)	(2 586 814)
<b>Balance unpaid (included in creditors)</b>	-	-
<b>Pension fund and medical aid deductions</b>		
Opening balance	-	-
Current year deductions	3 652 681	1 767 559
Amount paid - current year	(3 652 681)	(1 767 559)
<b>Balance unpaid (included in creditors)</b>	-	-
<b>Audit fees</b>		
Opening balance	17 592	128 013
Current year's audit fee	950 225	836 809
Amount paid - current year	(967 817)	(947 230)
<b>Balance unpaid (included in creditors)</b>	-	17 592
<b>Contributions</b>		
Opening balance	-	-
Council subscriptions	83 940	95 678
Amount paid - current year	(83 940)	(95 678)
	-	-
<b>Vat</b>		
Vat received for the year	5 824 548	1 607 701
All Vat returns have been submitted by the due date during the reporting period.		
<b>Councillors' arrear consumer accounts</b>		
No councillors had arrear accounts outstanding.	-	-
<b>Material Losses</b>		
No material losses were incurred.	-	-
<b>27. Prior year adjustments</b>		
During the year the municipality prepared its fixed asset register in compliance with GRAP. Pursuant to that exercise, the municipality identified certain assets that were not in the asset register. Corrections were also made to the backlog depreciation.		
<b>Arising from</b>		
Newly identified assets and backlog depreciation	(146 252)	424 555
Correction arising from provision of staff bonuses	(529 397)	-
	(675 649)	424 555
<b>28. Comparison of Budgets and Actual Amounts</b>		
The budget on was prepared on the accrual basis and covers the period 1 July 2015 to 30 June 2016.		

# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

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### 28. Comparison of Budgets and Actual Amounts (continued)

Revenue	Reason for difference	Budget outcome	Actual outcome	Difference
Other income from exchange transactions	Overestimated income in the Budget	1 576 500	1 329 246	247 254
Interest	Interest on unanticipated grants	2 100 000	2 936 595	(836 595)
Property rates	Better than expected collection of rates	2 202 513	2 263 077	(60 564)
Government grants and subsidies	Department transferred grants before the year end	50 283 000	64 044 715	(13 761 715)
		-	56 162 013	70 573 633
				(14 411 620)

Expenditure	Reason for difference	Budget outcome	Actual outcome	Difference
Employee costs	Overprovided for leave, post medical aid benefit and long service awards provisions	16 230 898	15 174 059	(1 056 839)
Remuneration of councillors	Overbudgeted for councillors' increased annual remuneration	3 663 445	3 570 053	(93 392)
Depreciation and asset impairment	Depreciation and backlog depreciation was determined by FAR consultants after year's budget was prepared	10 895 000	10 076 337	(616 544)
Finance charges	There was no interest or finance charges incurred	100 000	-	(100 000)
Transfers and grants	There was no transfers made	110 000	-	(110 000)
Other expenditure	Provided for accrued expenditure	26 282 596	26 477 192	(194 506)
		-	57 281 939	55 297 641
				(2 171 281)

Assets	Budget outcome	Actual outcome	Difference
Infrastructure assets	11 900 000	13 812 166	1 912 166
Community assets	30 800 000	16 609 034	(14 190 966)
Other assets	2 450 000	1 828 282	(621 718)
<b>Total Assets</b>	<b>45 150 000</b>	<b>32 249 482</b>	<b>(12 900 518)</b>

Funding Source	Budget outcome	Actual outcome	Difference
National Grant	14 367 000	-	(14 367 000)
Provincial Grant	-	-	-
District Grant	-	-	-
Internal Grant	30 783 000	-	(30 783 000)
<b>Total Funding</b>	<b>45 150 000</b>	<b>-</b>	<b>(45 150 000)</b>

### 29. Comparative figures

Certain comparative figures have been restated in order to present more meaningful and appropriate comparisons.

### 30. Risk management

#### Financial risk management

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

# Ezinqoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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### 30. Risk management (continued)

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IASs mainly apply. Generally, Financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Chief Financial Officer monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports quarterly to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

#### *Liquidity risk*

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

#### *Credit risk*

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses other publicly available financial information and its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of fixed deposit investments, long-term debtors, consumer debtors, other debtors, shortterm investment deposits and bank and cash balances.

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and sanitation services rendered to them.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of a provision for impairment.

Trade receivables consist of a large number of customers, spread across diverse industries in the geographical area of the municipality.

Periodic credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee is increased accordingly.



# Ezingoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

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### 30. Risk management (continued)

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of a provision for impairment. In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- A new owner is advised, prior to the issue of a rates clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid meters;
- The requirement of a deposit for new service connections, serving as guarantee;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:

Financial instrument		
Cash and cash equivalents	33 100 862	40 974 123
Consumer debtors	3 627 833	2 715 911
Other debtors	171 071	172 982
	<b>36 899 766</b>	<b>43 863 016</b>

#### Market risk

#### Interest rate risk

Interest Rate Risk is defined as the risk that the fair value or future cashflows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Financial Assets and Liabilities that are sensitive to interest rate risk are cash and cash equivalents, investments, and loan payables. The municipality is not exposed to interest rate risk on these financial instruments as the rates applicable are fixed interest rates.

Potential concentrations of interest rate risk consist mainly of fixed deposit investments, long-term debtors, consumer debtors, other debtors, short-term investment deposits and bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with well-established financial institutions of high credit standing. The credit exposure to any single counterparty is managed by setting percentage exposure limits, which are included in the municipality's investment policy. These limits are reviewed periodically by the Chief Financial Officer and authorised by the Council.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Periodic credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of a provision for impairment.

# Ezinqoleni Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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### 30. Risk management (continued)

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

### 31. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure of R Nil was incurred during the year under review (2015: R61 806).

#### Reconciliation of fruitless and wasteful expenditure

Opening balance	61 806	-
Interest paid on late submissions to Sars	-	61 806
Amounts to be written off after investigation by council	(61 806)	-
<b>Fruitless and wasteful expenditure awaiting investigation by Council</b>	<b>-</b>	<b>61 806</b>

### 32. Irregular expenditure

Opening balance	-	-
Irregular expenditure identified during the current year	20 773 047	-
<b>Closing balance - Irregular expenditure awaiting investigation</b>	<b>20 773 047</b>	<b>-</b>

### 33. Supply chain section 36 deviations

Africa Mayibuye Lead	20 000	-
Amasu Consulting	642 000	-
	<b>662 000</b>	<b>-</b>

In terms of paragraph 12(1)(d)(i) of Government Gazette no. 27636 issued on 30 May 2005, a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the gazette stipulates that the accounting officer may dispense with the official procurement process in certain circumstance, provided that he records the reasons for any deviation and reports them to the next meeting of the accounting officers and included a note to the financial statements.

### 34. Events after the reporting period

On 9 August 2016, Ezinqoleni Municipality merged with Hibiscus Coast Municipality to form Ray Nkonyeni Municipality.

## Ezingoleni Municipality

Financial Statements for the year ended 30 June 2016

### Appendix A: Schedule of External Loans

Description	Loan Number	Interest Rate	Date Repayable/ Repaid	Balance at 01/07/2015	Received during the year	Redeemed or written off during this period	Balance at 30/06/2016
Lease Liability							

# Ezinqoleni Municipality

Financial Statements for the year ended 30 June 2016

## Appendix B: Analysis of Property, plant and equipment

Description	Cost / Revaluation				Accumulated depreciation			Carrying Value
	Opening Balance	Additions	Transfers	Closing Balance	Opening Balance	Depreciation	Impairment Disposals	
<b>Buildings</b>								
Buildings	47 209 315	-	1 013 631	48 222 946	(13 860 168)	(2 391 777)	(152 460)	(16 404 405)
Assets under construction - Buildings	6 201 471	16 609 034	(23 099)	22 787 406	-	-	-	22 787 406
	<b>53 410 786</b>	<b>16 609 034</b>	<b>990 532</b>	<b>71 010 351</b>	<b>(13 860 168)</b>	<b>(2 391 777)</b>	<b>(152 460)</b>	<b>54 605 946</b>
<b>Infrastructure</b>								
Infrastructure - Roads	60 876 423	-	4 717 946	65 594 369	(33 700 199)	(5 868 580)	(3 749)	(39 572 528)
Assets under construction - Roads	12 609 547	13 812 166	(5 708 478)	20 713 235	-	-	-	20 713 235
	<b>73 485 970</b>	<b>13 812 166</b>	<b>(990 532)</b>	<b>86 307 604</b>	<b>(33 700 199)</b>	<b>(5 868 580)</b>	<b>(3 749)</b>	<b>46 735 076</b>
<b>Other assets</b>								
Machinery and equipment	5 212 186	31 962	-	5 244 134	(1 723 619)	(535 311)	(203)	(2 259 133)
Motor vehicles	2 203 950	1 088 882	-	3 292 832	(949 203)	(506 576)	-	(1 455 779)
Furniture and equipment	1 982 175	124 472	-	2 106 647	(1 394 996)	(210 391)	-	(1 605 387)
Computer equipment	1 510 232	432 686	-	1 942 918	(814 745)	(274 295)	-	(1 089 040)
	<b>10 908 543</b>	<b>1 678 002</b>	<b>-</b>	<b>12 583 531</b>	<b>(4 882 563)</b>	<b>(1 526 573)</b>	<b>(203)</b>	<b>(6 409 339)</b>
	<b>137 805 299</b>	<b>32 099 202</b>	<b>(0)</b>	<b>(3 014) 169 901 486</b>	<b>(52 442 930)</b>	<b>(9 786 930)</b>	<b>(156 412)</b>	<b>(62 386 272)</b>
<b>Intangible assets</b>								
Software	855 157	150 280	-	1 005 437	(530 186)	(132 590)	-	(662 776)
<b>Total assets</b>	<b>138 660 456</b>	<b>32 249 482</b>	<b>(0)</b>	<b>(3 014) 170 906 923</b>	<b>(52 973 116)</b>	<b>(9 919 520)</b>	<b>(156 412)</b>	<b>(63 049 048)</b>

# Ezingoleni Municipality

Financial Statements for the year ended 30 June 2016

## Appendix B: Analysis of Property, plant and equipment

30 June 2015	Cost / Revaluation					Accumulated depreciation					Carrying Value	
Description	Opening Balance	Prior year adjustment	Additions	Newly identified assets at fair value	Transfers	Closing Balance	Opening Balance	Depreciation	Impairment	Disposals		Closing Balance
<b>Buildings</b>												
Buildings	47 209 315	-	-	-	-	47 209 315	(10 378 833)	(2 600 428)	(880 909)	-	(13 860 170)	33 349 145
Assets under construction - Buildings	3 143 959	-1 057 512	-	-	-	6 201 471	-	-	-	-	-	6 201 471
	<b>50 353 274</b>	<b>-1 057 512</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>53 410 786</b>	<b>(10 378 833)</b>	<b>(2 600 428)</b>	<b>(880 909)</b>	<b>-</b>	<b>(13 860 170)</b>	<b>39 550 616</b>
<b>Infrastructure</b>												
Infrastructure - Roads	57 692 573	-	-	3 268 296	(14 818)	60 946 051	(27 681 359)	(6 045 446)	(43 022)	-	(33 769 827)	27 176 224
Assets under construction - Roads	4 893 202	-1 984 640	(3 268 296)	-	-	12 609 546	-	-	-	-	-	12 609 546
	<b>62 585 775</b>	<b>-1 984 640</b>	<b>-</b>	<b>-</b>	<b>(14 818)</b>	<b>73 555 597</b>	<b>(27 681 359)</b>	<b>(6 045 446)</b>	<b>(43 022)</b>	<b>-</b>	<b>(33 769 827)</b>	<b>39 785 770</b>
<b>Other assets</b>												
Machinery and equipment	548 341	1 073 941	36 728	(39)	3 658 971	(1 553 215)	(168 677)	(1 727)	-	(1 723 619)	1 935 352	
Motor vehicles	1 407 698	876 788	(80 536)	2 203 950	(742 634)	(206 569)	(206 569)	-	-	(949 203)	1 254 747	
Furniture and equipment	1 913 710	64 893	3 573	(2)	1 982 175	(1 166 819)	(209 848)	(18 329)	-	(1 394 996)	587 179	
Computer equipment	1 184 170	335 945	8 361	(6 993)	1 521 482	(636 764)	(187 370)	(1 861)	-	(825 995)	695 487	
	<b>5 053 919</b>	<b>1 351 567</b>	<b>48 662</b>	<b>(87 569)</b>	<b>9 366 579</b>	<b>(4 099 432)</b>	<b>(772 464)</b>	<b>(21 918)</b>	<b>-</b>	<b>(4 893 813)</b>	<b>4 472 765</b>	
	<b>117 992 967</b>	<b>-</b>	<b>1 393 720</b>	<b>48 662</b>	<b>(102 387)</b>	<b>136 332 962</b>	<b>(42 159 624)</b>	<b>(9 418 337)</b>	<b>(945 849)</b>	<b>-</b>	<b>(52 523 810)</b>	<b>83 809 151</b>
<b>Intangible assets</b>												
Software	587 190	-	267 966	-	-	855 156	(455 670)	(74 515)	-	(530 186)	324 970	
Total assets	118 580 157	-	1 661 686	48 662	(102 387)	137 188 117	(42 615 294)	(9 492 853)	(945 849)	-	(53 053 996)	84 134 122

# Ezinqoleni Municipality

Financial Statements for the year ended 30 June 2016

## Appendix C: Segmental Analysis of Property, plant and equipment

Description	Cost / Revaluation				Accumulated depreciation					Carrying Value	
	Opening Balance	Additions	Under Construction	Transfers	Closing Balance	Opening Balance	Depreciation	Disposals	Reassess-ment		Closing Balance
Executive & Council	331 872	35 275	-	-	367 147	106 376	51 485	-	-	157 861	209 286
Financial Services	1 358 617	203 392	-	-	1 562 009	1 006 505	140 922	-	-	1 147 427	414 583
Corporate Services	10 549 779	836 119	-	-	11 385 898	2 361 551	453 598	-	-	2 815 149	8 570 749
Technical Services	106 339 889	7 586 899	48 662	(102 387)	123 873 063	39 140 862	8 846 848	-	945 849	48 933 560	74 939 504
	118 580 157	8 661 686	48 662	(102 387)	137 188 117	42 615 294	9 492 853	-	945 849	53 053 996	84 134 122

## Ezinqoleni Municipality

Financial Statements for the year ended 30 June 2016

### Appendix D: Segmental Statement of Financial Performance

	2016			2015		
	Actual Revenue	Actual Expenditure	Surplus / (Deficit)	Actual Revenue	Actual Expenditure	Surplus / (Deficit)
Executive & Council	2 095 996	6 980 979	(4 884 983)	1 013 702	6 605 587	(5 591 885)
Financial Services	53 111 120	17 382 186	35 728 934	41 921 635	18 981 418	22 940 217
Corporate Services	257 070	20 731 596	(20 474 526)	49 026	14 113 758	(14 064 732)
Technical Services	15 858 248	8 855 913	7 002 335	16 044 588	4 606 287	11 438 301
	<b>71 322 434</b>	<b>53 950 674</b>	<b>17 371 760</b>	<b>59 028 951</b>	<b>44 307 050</b>	<b>14 721 901</b>

## Ezinqoleni Municipality

Financial Statements for the year ended 30 June 2016

### Statement Of Budget Information versus Actual (Revenue And Expenditure)

Description	Original Budget	Budget Adjustments	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Final Budget	Explanation of significant Variance greater than 10% versus Final Budget
<b>Financial Performance</b>									
Property rates	2 702 513	(500 000)	2 202 513	2 263 077	-	(60 564)	102.75 %	83.74 %	
Investment revenue	1 800 000	300 000	2 100 000	2 936 595	-	(836 595)	139.84 %	163.14 %	
Transfers recognised - operational	50 283 000	-	50 283 000	64 044 715	-	(13 761 715)	127.37 %	127.37 %	
Other own revenue	671 000	905 500	1 576 500	1 329 246	-	247 254	84.32 %	198.10 %	
<b>Total Revenue (excluding capital transfers &amp; contributions)</b>	<b>55 456 513</b>	<b>705 500</b>	<b>56 162 013</b>	<b>70 573 633</b>	<b>-</b>	<b>(14 411 620)</b>	<b>125.66 %</b>	<b>127.26 %</b>	
Employee costs	14 734 057	1 496 841	16 230 898	15 174 059	-	1 056 839	93.49 %	102.99 %	
Remuneration of councillors	3 663 445	-	3 663 445	3 570 053	-	93 392	97.45 %	97.45 %	
Depreciation & asset impairment	10 395 000	500 000	10 895 000	10 076 337	-	818 663	92.49 %	96.93 %	
Finance charges	60 060	39 940	100 000	-	-	100 000	- %	- %	
Transfers and grants	110 000	-	110 000	-	-	110 000	- %	- %	
Other expenditure	26 342 533	(59 937)	26 282 596	26 477 192	194 596	(194 596)	100.74 %	100.51 %	
<b>Total Expenditure</b>	<b>55 305 095</b>	<b>1 976 844</b>	<b>57 281 939</b>	<b>55 297 641</b>	<b>194 596</b>	<b>1 984 298</b>	<b>96.54 %</b>	<b>99.99 %</b>	
<b>Surplus/(Deficit)</b>	<b>151 418</b>	<b>(1 271 344)</b>	<b>(1 119 926)</b>	<b>15 275 992</b>	<b>-</b>	<b>(16 395 918)</b>	<b>(1 364.02)%</b>	<b>10 088.62 %</b>	



# Ezingoleni Municipality

Financial Statements for the year ended 30 June 2016

## Actual versus Budget (Acquisition of Property, plant and equipment)

	Actual	Under Construction	Total Additions	Budget	Variance	Variance %	Explanation of Significant Variances
Executive & Council	8 098	-	8 098	1 400 000	(1 391 902)	(99.42)%	
Financial Services	15 998	-	15 998	200 000	(184 002)	(0.92)%	
Corporate Services	239 466	-	239 466	650 000	(410 534)	(0.63)%	
Technical Services	31 830 139	-	31 830 139	42 900 000	(11 069 861)	(25.80)%	
	<b>32 093 701</b>	<b>-</b>	<b>32 093 701</b>	<b>45 150 000</b>	<b>(13 056 299)</b>	<b>(28.92)%</b>	

## Ezingolweni Municipality

Financial Statements for the year ended 30 June 2016

### Appendix F: Grants and Subsidies received

Disclosure of Grants and Subsidies in terms of Section 123 of the Municipal Finance Management Act, 56 of 2003

Name of Grant	Quarterly Receipts				Total Receipts
	Jul to Sep	Oct to Dec	Jan to Mar	Apr to Jun	
Municipal Systems Improvement Grant (MSIG)	934 000	-	-	-	934 000
Municipal Infrastructure Grant (MIG)	5 000 000	5 000 000	2 007 000	-	12 007 000
Finance Management Grant	1 800 000	-	-	-	1 800 000
National Lottery Grant	-	-	-	-	-
Town Planning Grant	-	-	-	-	-
LED Strategy Grant	42 500	-	-	-	42 500
Electricity Grant	-	-	-	-	-
Library Cyber-Cadet Grant	170 000	-	-	-	170 000
Provincialisation of Library	553 000	-	-	-	553 000
IDP Community Participation	-	-	-	-	-
Sport and Recreation Grant	-	-	-	-	-
EPWP Grant	572 000	429 000	429 000	-	1 430 000
Maintenance Grant	-	-	-	-	-
Disaster Management Grant	-	-	-	-	-
Municipal Excellence Award	-	-	-	-	-
Demarcation Grant	-	-	-	-	-
	9 071 500	5 429 000	2 436 000	-	16 936 500

Name of Grant	Quarterly Expenditure				Total Expenditure
	Jul to Sep	Oct to Dec	Jan to Mar	Apr to Jun	
Municipal Systems Improvement Grant (MSIG)	193 570	167 646	165 514	458 833	985 563
Municipal Infrastructure Grant (MIG)	975 709	5 880 908	4 938 790	1 726 507	13 521 914
Finance Management Grant	275 444	510 650	330 168	357 320	1 473 582
National Lottery Grant	-	-	-	-	-
Town Planning Grant	-	-	-	-	-
LED Strategy Grant	-	-	-	-	-
Electricity Grant	-	-	-	-	-
Library Cyber-Cadet Grant	52 430	26 157	39 228	39 725	157 540
Provincialisation of Library	-	-	-	-	-
Sport and Recreation Grant	-	-	-	-	-
EPWP Grant	370 201	340 643	424 830	304 928	1 440 602
Maintenance Grant	33 277	31 444	35 124	21 429	121 274
Disaster Management Grant	120 051	33 000	33 000	33 000	219 051
Municipal Excellence Award	1 000 000	-	-	-	1 000 000
Demarcation Grant	450 000	342 000	300 000	-	1 092 000
	3 722 762	7 606 267	6 272 847	2 945 642	20 547 518

# Ezingoleni Municipality

Financial Statements for the year ended 30 June 2016

## Grants and Subsidies received

Disclosure of Grants and Subsidies in terms of Section 123 of the Municipal Finance Management Act, 56 of 2003

Name of Grant	Name of organ of state or municipal entity	Unspent portion 2012/2013 financial statements	Total Receipts	Total Expenditure	Overspent portion shown as Receivables	Unspent portion 2013/2014 financial statements	Grants and Subsidies delayed / withheld	Reason for delay or withholding of funds	Complied with grant conditions? c
Municipal Systems Improvement Grant (MSG)	Traditional and Local Government Affairs	2 327	934 000	985 563	-	(49 236)	No	N/A	Yes
Municipal Infrastructure Grant (MIG)	Traditional and Local Government Affairs	142 801	12 007 000	13 521 914	-	(1 372 113)	No	N/A	Yes
Finance Management Grant	National Treasury	359	1 800 000	1 473 582	-	326 777	No	N/A	Yes
National Lottery Grant	National Lottery	-	-	-	-	-	No	N/A	Yes
Town Planning Grant	Traditional and Local Government Affairs	-	-	-	-	-	No	N/A	Yes
LED Strategy Grant	COGTA	34 022	42 500	-	-	76 522	No	N/A	Yes
Electricity Grant	Department of Minerals and Energy	-	-	-	-	-	No	N/A	Yes
Library Cyber-Cadet Grant	KZN Department of Arts and Culture	197 584	170 000	157 540	-	210 044	No	N/A	Yes
Provincialisation of Library	KZN Department of Arts and Culture	78 498	553 000	535 992	-	95 506	No	N/A	Yes
IDP Community Participation	KZN Dept of (Cogta)	13	-	-	-	13	No	N/A	Yes
Sport and Recreation Grant	KZN Department of Arts and Culture	-	-	-	-	-	No	N/A	Yes
EPWP Grant	KZN Department of Public Works	5 639	1 430 000	1 440 602	-	(4 963)	No	N/A	Yes
Maintenance Grant	KZN Department of Arts and Culture	106 610	-	121 274	-	(14 664)	No	No	N/A
Disaster Management Grant	Ugu District Municipality	297 832	-	219 051	-	78 781	No	No	N/A
Disaster Management Grant	COGTA	1 000 000	-	1 000 000	-	-	No	No	N/A
Demarcation Grant	COGTA	-	-	1 092 000	-	(1 092 000)	No	No	N/A
		<b>1 865 685</b>	<b>16 936 500</b>	<b>20 547 518</b>	<b>-</b>	<b>(1 745 333)</b>			

